

AR37

# Prairie Oil Royalties

COMPANY, LTD.



ANNUAL REPORT

1975

## Directors:

Donald D. Barkwell                      Calgary, Alberta

*Vice-President, Natural Resources  
Norcen Energy Resources Limited*

Edward A. Galvin                      Calgary, Alberta

*Vice-Chairman of the Board  
Norcen Energy Resources Limited*

Wilfrid A. Loucks                      Calgary, Alberta

*President  
Coleman Collieries Limited*

Frederick A. McKinnon              Calgary, Alberta

*President  
BP Exploration Canada Limited*

Clifford A. Rae                      Calgary, Alberta

*Barrister & Solicitor  
Macleod Dixon,  
Barristers & Solicitors*

David M. Tyerman, Q.C.      Regina, Saskatchewan

*Barrister & Solicitor  
MacPherson, Leslie & Tyerman  
Barristers & Solicitors*

## Officers:

Donald D. Barkwell                      President

*Vice-President, Natural Resources  
Norcen Energy Resources Limited*

Richard S. Buckland      Vice-President, Exploration

*General Manager, Canadian Exploration  
Norcen Energy Resources Limited*

Arthur L. Wood                      Vice-President, Production

*General Manager, Oil and Gas Production  
Norcen Energy Resources Limited*

David M. Tyerman, Q.C.              Secretary

*Barrister & Solicitor  
MacPherson, Leslie & Tyerman  
Barristers & Solicitors*

A. Kenneth Davies                      Treasurer

*Treasurer  
Norcen Energy Resources Limited*

James C. Crawford                      Assistant Secretary

*Assistant Secretary and General Counsel  
Norcen Energy Resources Limited*

THE ANNUAL GENERAL MEETING OF the Company will be held on Friday April 30, 1976 at 9:00 o'clock in the forenoon, Mountain Daylight Time, in the Board Room of Norcen Energy Resources Limited, 32nd Floor, 715 - 5th Avenue S.W., Calgary, Alberta, Canada T2P 2X7.

## Executive Office:

715 - 5th Avenue S.W., Calgary, Alberta. T2P 2X7

## Registered Office:

2161 Scarth Street, Regina, Saskatchewan. S4P 2V4

## Auditors:

Thorne Riddell & Co., Calgary, Alberta

## Registrars & Transfer Agents:

Canada Permanent Trust Company,  
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,  
New York, N.Y.

## Stock Exchange Listings:

Toronto Stock Exchange, Toronto, Ontario  
American Stock Exchange, New York, N.Y.

# Directors' Report to the Shareholders

## DESCRIPTION OF BUSINESS

Prairie Oil Royalties Company, Ltd. produces and sells crude oil, gas liquids and natural gas in Western Canada and carries out oil and gas exploration and development in Western Canada and the Canadian Arctic. In addition to its own properties, the Company owns 35% of the outstanding shares of British Columbia Oil Lands Ltd., a company with exploratory acreage in the Canadian Arctic, Alberta and British Columbia, and with oil and gas production in Alberta and British Columbia. The accounts and operating data in this report do not reflect the Company's interest in British Columbia Oil Lands Ltd.

## FINANCIAL

Net earnings for 1975 were \$805,131 or 41 cents per share, up from restated net earnings of \$513,540 or 26 cents per share in 1974. This increase was primarily due to higher gas prices.

Cash generated from operations was \$1,468,916 or 75 cents per share as compared to \$1,212,668 or 62 cents per share for 1974.

## PRODUCTION

Average daily production rates for 1975 before deducting royalties were 450 barrels of oil and gas liquids and 6,676 Mcf of gas, compared to 698 barrels and 7,466 Mcf in 1974. The decrease in oil and gas liquids production was primarily due to lower demand for Saskatchewan crude and normal production decline. On July 1, 1975 the wellhead price for Western Canadian crude increased by \$1.50 per barrel to an average of \$8.00 per barrel. As a result, the average price received for the Company's production in 1975 was \$7.10 per barrel, an increase of \$1.66. The price of natural gas increased substantially during the year to an average of 56 cents per Mcf as compared to 20 cents per Mcf in 1974. Effective November 1, 1975, there was a further increase in natural gas prices, the

full effect of which will be realized during 1976.

## EXPLORATION AND DEVELOPMENT

### Drilling

During the year, the Company participated in the drilling of 21 (4.2 net) wells which resulted in 1 oil (.1 net) well and 12 gas (2.6 net) wells. The following is a summary of the wells drilled:

#### Wells Drilled:

	1975		1974	
	Gross	Net	Gross	Net
Exploratory				
Oil	—	—	2	.3
Gas	8	1.5	4	1.0
Dry	7	1.2	14	2.2
TOTAL	15	2.7	20	3.5
Development				
Oil	1	.1	—	—
Gas	4	1.1	1	.5
Dry	1	.3	2	.6
TOTAL	6	1.5	3	1.1

### Arctic Islands

During 1975, Panarctic Oils Ltd. drilled three additional gas wells that were important to the Company. Two of the wells were drilled on acreage in which the Company has an interest, while the other was located offshore, seven miles east of the Drake Point gas field. All of the wells added to the proven reserves of the Drake and Hecla gas fields in which the Company has interests.

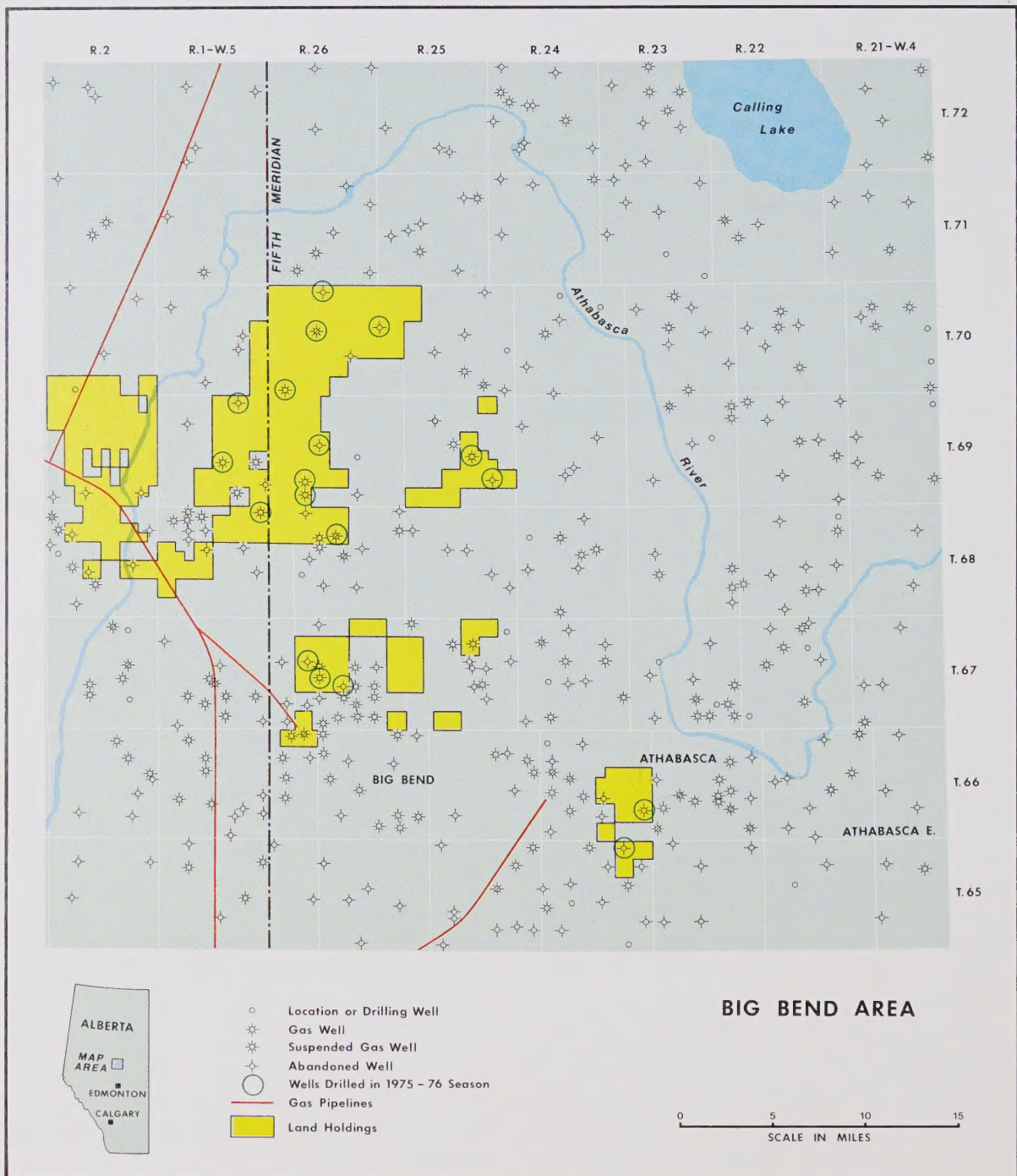
Of current importance is the Panarctic West Hecla P-62 well located offshore west of the Sabine Peninsula. Panarctic recently announced that this well had discovered gas in a deeper horizon than had previously been successful in the Hecla field. This will add to the gas reserves of the Hecla field and will bring known Arctic gas reserves closer to the threshold volumes required to support a pipeline.



## Alberta

In the Big Bend area, in north-central Alberta, the Company holds interests ranging from 12½% to 100% in 103,000 acres (see accompanying map). In 1975 a nine-well program on these landholdings resulted in five gas wells, while in the first

two months of 1976 further drilling has resulted in five more gas completions. Exploratory and development drilling will continue in 1976. Production from the new wells will commence when pipeline connections are completed in 1976 or early in 1977.



## OIL AND GAS LANDHOLDINGS

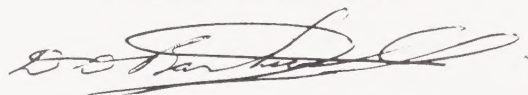
At December 31, 1975, Prairie Oil Royalties owned interests in 3,518,540 gross (365,288 net) acres compared to 3,788,650

gross (398,935 net) acres at the end of the prior year. These landholdings are shown in detail in the following summary.

AREA	LEASES		RESERVATIONS, PERMITS AND LICENCES		TOTAL	
	GROSS ACRES	NET ACRES	GROSS ACRES	NET ACRES	GROSS ACRES	NET ACRES
Arctic Islands .....	102,493	3,228	2,432,057	94,615	2,534,550	97,843
Alberta .....	428,713	126,605	370,545	73,709	799,258	200,314
Saskatchewan .....	64,012	36,105	46,880	9,376	110,892	45,481
British Columbia .....	1,038	682	—	—	1,038	682
Manitoba .....	72,802	20,968	—	—	72,802	20,968
Total .....	<u>669,058</u>	<u>187,588</u>	<u>2,849,482</u>	<u>177,700</u>	<u>3,518,540</u>	<u>365,288</u>

In addition to the above, royalty interests are held in 313,047 acres and net carried interests in 1,920 acres.

On Behalf of the Board



D. D. Barkwell  
President

Calgary, Alberta  
April 5, 1976



# CONSOLIDATED BALANCE SHEET

as at December 31, 1975 and 1974

## Assets

### CURRENT ASSETS

	<u>1975</u>	<u>1974</u> (Note 1)
Cash and short-term deposits .....	\$ 2,236,357	\$1,690,252
Accounts receivable .....	343,057	292,979
Income taxes recoverable (note 1) .....	50,000	44,000
Drilling and other deposits .....	77,489	51,569
	<u>2,706,903</u>	<u>2,078,800</u>

### INVESTMENT IN BRITISH COLUMBIA

OIL LANDS LTD., at cost (note 2) .....	<u>2,009,117</u>	<u>2,009,117</u>
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### PROPERTY, PLANT AND EQUIPMENT, at cost

(notes 1 and 3) .....	8,760,649	7,727,253
Accumulated depletion and depreciation .....	<u>2,828,136</u>	<u>2,489,351</u>
	<u>5,932,513</u>	<u>5,237,902</u>

	<u>\$10,648,533</u>	<u>\$9,325,819</u>
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## Liabilities

	<u>1975</u>	<u>1974</u>
CURRENT LIABILITIES		(Note 1)
Accounts payable .....	\$ 381,030	\$ 188,447
DEFERRED INCOME TAXES (note 1) .....	<u>2,225,000</u>	<u>1,900,000</u>

## Shareholders' Equity

CAPITAL STOCK		
Authorized		
2,500,000 shares of \$1 par value		
Issued		
1,961,520 .....	1,961,520	1,961,520
CONTRIBUTED SURPLUS .....	574,330	574,330
RETAINED EARNINGS (note 4) .....	<u>5,506,653</u>	<u>4,701,522</u>
	<u>8,042,503</u>	<u>7,237,372</u>
Approved by the Board:		
D. D. Barkwell, Director		
W. A. Loucks, Director		
	<u>\$10,648,533</u>	<u>\$9,325,819</u>



## CONSOLIDATED STATEMENT OF EARNINGS

years ended December 31, 1975 and 1974

	1975	1974 (Note 1)
REVENUE		
Oil and gas sales .....	\$1,105,477	\$ 609,170
Royalties .....	476,764	665,214
Interest .....	151,506	151,980
	<u>1,733,747</u>	<u>1,426,364</u>
EXPENSES		
Production .....	162,476	159,908
General and administrative .....	108,354	97,788
Depletion .....	316,000	354,001
Depreciation .....	22,786	50,127
	<u>609,616</u>	<u>661,824</u>
EARNINGS BEFORE INCOME TAXES .....	<u>1,124,131</u>	<u>764,540</u>
INCOME TAXES (note 1)		
Current recovery .....	(6,000)	(44,000)
Deferred .....	325,000	295,000
	<u>319,000</u>	<u>251,000</u>
NET EARNINGS .....	<u>\$ 805,131</u>	<u>\$ 513,540</u>
NET EARNINGS PER SHARE .....	<u>\$ .41</u>	<u>\$ .26</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

years ended December 31, 1975 and 1974

	1975	1974
BALANCE AT BEGINNING OF YEAR, as previously reported .....	\$4,637,522	\$4,187,982
Adjustment of prior year's income taxes (note 1) .....	64,000	-
BALANCE AT BEGINNING OF YEAR, as restated .....	<u>4,701,522</u>	<u>4,187,982</u>
Net Earnings .....	805,131	513,540
BALANCE AT END OF YEAR .....	<u>\$5,506,653</u>	<u>\$4,701,522</u>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

years ended December 31, 1975 and 1974

	1975	1974 (Note 1)
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings .....	\$ 805,131	\$ 513,540
Charges not requiring working capital .....	\$ 663,785	699,128
Working capital generated from operations .....	<u>1,468,916</u>	<u>1,212,668</u>
APPLICATION OF WORKING CAPITAL		
Property, plant and equipment .....	<u>1,033,396</u>	<u>1,142,372</u>
INCREASE IN WORKING CAPITAL .....	<u>\$ 435,520</u>	<u>\$ 70,296</u>



## Notes to 1975 and 1974 Consolidated Financial Statements

### NOTE 1 ACCOUNTING POLICIES

#### Principles of Consolidation

The consolidated financial statements include the accounts of the company and its inactive wholly-owned subsidiary, Prairie Oil Exploration Ltd.

#### Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves.

#### Depreciation

Depreciation of plant and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

#### Income Taxes and Restatement of 1974 Accounts

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in their accounts. Under this method the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation provisions reflected in their accounts.

The 1974 provision for income taxes has been adjusted to give effect to refinements to the original calculations which had included the effects of the change in income tax legislation proposed by the federal and certain provincial governments in 1974 and which were enacted into legislation, with retroactive effect, in 1975. The adjustments resulted in a current tax recovery of \$44,000 and a reduction in deferred taxes of \$20,000; the 1974 accounts have been restated from those previously reported to give effect to these adjustments.

### NOTE 2 INVESTMENT

The investment in British Columbia Oil Lands Ltd. consists of 333,531 shares representing approximately 35% of that company's outstanding capital stock, with an approximate market value of \$1.7 million on February 6, 1976. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that could be realized on sale.

### NOTE 3 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net
<b>December 31, 1975</b>			
Oil and gas properties .....	\$7,946,627	\$2,319,528	\$5,627,099
Oil and gas production equipment .....	814,022	508,608	305,414
	<u>\$8,760,649</u>	<u>\$2,828,136</u>	<u>\$5,932,513</u>
<b>December 31, 1974</b>			
Oil and gas properties .....	\$7,049,256	\$2,003,528	\$5,045,728
Oil and gas production equipment .....	677,997	485,823	192,174
	<u>\$7,727,253</u>	<u>\$2,489,351</u>	<u>\$5,237,902</u>

### NOTE 4 DIVIDEND RESTRICTION

The company is subject to the Anti-Inflation Act which provides, as from October 14, 1975, for the restraint of dividends in Canada. Under the legislation, the company is restricted in the payment of dividends during the twelve month period ending October 13, 1976 to a maximum amount of \$128,385 based on its 1974 earnings.

### NOTE 5 DIRECTORS FEES

1975 general and administrative expenses include directors' fees of \$7,500.

## Auditors' Report

TO THE SHAREHOLDERS  
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the consolidated balance sheets of Prairie Oil Royalties Company, Ltd. and subsidiary company as at December 31, 1974 and 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and 1975 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta  
February 6, 1976

THORNE RIDDELL & CO.  
Chartered Accountants



# PRAIRIE OIL ROYALTIES COMPANY, LTD.

## COMPARATIVE SUMMARY

for the years ended December 31

	1975		1974		1973		1972		1971	
<b>Revenue [\$000]</b>										
Oil Sales	\$	253	\$	194	\$	173	\$	139		\$130
Gas Sales		852		415		349		289		166
Royalties		477		665		654		552		595
Interest & Other		152		152		84		52		48
		<u>1,734</u>		<u>1,426</u>		<u>1,260</u>		<u>1,032</u>		<u>939</u>
<b>Expenses [\$000]</b>										
Production	\$	163		160		144		142		81
General and administrative		108		97		51		49		60
Depletion		316		354		284		246		195
Depreciation		23		50		63		57		54
		<u>610</u>		<u>661</u>		<u>542</u>		<u>494</u>		<u>390</u>
<b>Earnings before Income Taxes [\$000]</b>		\$1,124		765		718		538		549
<b>Income Taxes (\$000) (note 1)</b>										
Current		(6)		(44)		—		—		—
Deferred		325		295		286		198		211
		<u>319</u>		<u>251</u>		<u>286</u>		<u>198</u>		<u>211</u>
<b>* Net Earnings [\$000]</b>		<u>\$ 805</u>		<u>\$ 514</u>		<u>\$ 432</u>		<u>\$ 340</u>		<u>\$338</u>
per share		41¢		26¢		22¢		17¢		17¢
<b>Cash Flow [\$000]</b>		\$1,469		\$1,213		\$1,065		\$ 841		\$798
per share		75¢		62¢		54¢		43¢		41¢
<b>Expenditures [\$000]</b>										
Exploration and Property Acquisitions	\$	897	\$	1,095	\$	570	\$	630		\$939
Plant and Equipment (Net after sales)	\$	136	\$	48	\$	(39)	\$	101		\$ 28
<b>Shares Issued and Outstanding</b>		1,961,520		1,961,520		1,961,520		1,961,520		1,961,520
<b>Market Price Ranges of Shares [\$]</b>	High	Low	High	Low	High	Low	High	Low	High	Low
American Stock Exchange 1st Quarter	4 ¾	2 ¾	11 ¾	6 ¾	13 ¾	9	15 ¾	10 ⅝	17 ½	10 ¼
2nd Quarter	5 ½	3 ⅛	7 ⅛	4 ⅝	9 ¾	6 ⅛	15 ¼	11 ⅝	16 ⅝	13 ¼
3rd Quarter	4 ⅞	3 ¼	5 ¾	3	8 ¾	6 ¼	13 ½	11 ¾	16 ½	12 ⅝
4th Quarter	4	3	5 ⅛	2 ¼	11 ¾	5 ¾	13 ⅝	11	13 ¾	8 ¾

\* Effective January 1, 1974 the Company adopted the deferred income tax method of accounting and prior years' earnings have been restated.





AR37

*Full*

PRAIRIE OIL ROYALTIES  
COMPANY, LTD.

INTERIM REPORT

June 30, 1975

640 Eighth Avenue S.W.  
Calgary, Alberta T2P 1G9

TO THE SHAREHOLDERS:

### Drilling

In the six months ended June 30, 1975, the Company participated in the drilling of 10 gross wells (1.63 net) resulting in 1 (.13) oil well, 5 (.80) gas wells, and 4 (.743) dry holes.

Five of these wells were in the Big Bend area of central Alberta, which resulted in 2 gas wells and 3 dry holes. The Company participated to interests varying between 25% and 35% in the purchase of approximately 23,000 acres in the immediate vicinity where further drilling will be carried out.

### Oil and Gas Pricing

Following Federal/Provincial negotiations, the wellhead price of crude oil was increased \$1.50 per barrel to an average of approximately \$8.00 per barrel effective July 1, 1975. In Alberta this price increase is expected to increase the Company's share of revenue from a barrel of Alberta Crown production by approximately 15¢ in 1976. In Saskatchewan it is anticipated that no improvement in return to the producer will result from this increase.

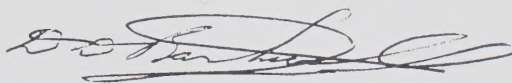
The Federal Government has announced that effective August 1, 1975, the border price for gas exports will be \$1.40/MCF increasing to \$1.60/MCF on November 1, 1975. The border price currently in effect is \$1.00/MCF. The mechanics of determining the average wellhead price in Alberta have yet to be established. However, considering the \$1.25/MCF Toronto city gate price announced in the June 23, 1975 Federal budget in conjunction with the new border prices, an average wellhead price in Alberta of \$1.00/MCF is anticipated effective November 1, 1975.

### Financial

Oil revenue during the first half of 1975 was down 43% compared to the same period in 1974, due to reduced U.S. demand for crude

from the southwest portion of Saskatchewan. Gas revenue was up 88% resulting primarily from higher wellhead prices in Alberta. As a result, net earnings of \$236,000 (12¢ per share) is 18% less than last year.

On behalf of the Board,



D. D. Barkwell,  
President.

Calgary, Alberta.  
August 15, 1975.

## CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30  
(unaudited)

	1975	1974
SALES AND OTHER REVENUE ..	\$728,000	\$716,000
COST AND EXPENSES		
Field operating expenses .....	83,000	71,000
General and Administrative expenses .....	64,000	51,000
Depletion .....	139,000	102,000
Depreciation .....	11,000	25,000
	<u>297,000</u>	<u>249,000</u>
EARNINGS BEFORE INCOME TAXES .....	431,000	467,000
Income Taxes — current and deferred .....	<u>195,000</u>	<u>178,000</u>
NET EARNINGS .....	<u>\$236,000</u>	<u>\$289,000</u>
EARNINGS PER SHARE		
Cash Earnings .....	29¢	30¢
Net Earnings .....	12¢	15¢

## CONSOLIDATED STATEMENT OF CHANGE IN FINANCIAL POSITION

For the Six Months Ended June 30  
(unaudited)

	1975	1974
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings .....	\$236,000	\$289,000
Charges not requiring working capital .....	<u>327,000</u>	<u>305,000</u>
Working capital generated from operations ..	<u>563,000</u>	<u>594,000</u>
APPLICATION OF WORKING CAPITAL		
Property, plant & equipment ..	<u>433,000</u>	<u>581,000</u>
INCREASE IN WORKING CAPITAL .....	<u>\$130,000</u>	<u>\$ 13,000</u>

Signed on Behalf of the Board  
D. D. BARKWELL, Director  
W. A. LOUCKS, Director